

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6867

Investigation into Memorandum of)
Understanding between Green Mountain Power)
Corporation and Vermont Department of Public)
Service)

Docket No. 7175

Tariff filing of Green Mountain Power)
Corporation requesting an 11.95% increase in its)
rates, effective May 29, 2006)

Docket No. 7176

Petition of Green Mountain Power Corporation)
for approval of an alternative-regulation plan)

Order entered: 8/3/2007

ORDER RE: USE OF DOCKET 6867 AND VERMONT YANKEE OUTAGE RESERVE

I. INTRODUCTION

On May 25, 2007, Green Mountain Power Corporation ("GMP" or the "Company") submitted a plan for use of certain earnings during 2005 and 2006 that exceeded the earnings cap adopted by the Public Service Board ("Board") in Docket 6867 for those years. In addition, GMP asks that the Board approve a modification to the Vermont Yankee Outage Reserve ("VY Outage Reserve") that GMP included in the rates the Board approved in Docket 7175/7176.¹ The Department of Public Service ("Department") and IBM both recommend approval of GMP's

1. *Tariff filing of Green Mountain Power Corp.*, Docket Nos. 7175/7176, Order of 12/22/06 at 44.

proposal; no party opposes such approval. In this Order, we approve GMP's plan, finding that it is a reasonable use of the excess earnings.

II. BACKGROUND

In Docket 6867, the Board conducted an investigation into a Memorandum of Understanding ("MOU") between the Department and GMP. Under the MOU, GMP's rates were frozen for 2004. GMP was also permitted to increase rates by up to 1.9% in 2005 and up to a 0.9% in 2006, assuming GMP could support the need for both increases. In addition, GMP agreed to a cap on its earnings during the period of the MOU. This agreement was embodied in the MOU and incorporated into the Board's Order as a condition which stated that, if GMP's earnings exceeded the allowed return of 10.5% during the period from January 1, 2004 through December 31, 2006, "the excess shall be returned to ratepayers as a credit on customer bills or through reductions to regulatory asset accounts or through other means as agreed to by the Department and approved by this Board."²

In both 2005 and 2006, GMP's earnings exceeded its allowed return. Originally, GMP reported overearnings in 2005 of \$226,697, which it used to write down certain accounts. GMP has now identified additional earnings in excess of the cap of \$491,058. In addition, GMP's earnings in 2006 exceeded its allowed return by \$5,166,288, for a total of \$5,656,346 over the two years that has not already been used to benefit customers as provided in the MOU.

III. GMP'S PROPOSAL

GMP now proposes to add these funds to the VY Outage Reserve. This Reserve was created by GMP to help address the potentially high costs of replacement power when Vermont Yankee experiences an unexpected outage. GMP had also previously purchased outage insurance, which cost approximately \$810,000 per year. The VY Outage Reserve was intended to provide additional funds to pay costs associated with outages that were not reimbursed through

2. *Investigation into Memorandum of Understanding between Green Mountain Power Corp. and the Department of Public Service*, Docket 6867, Order of 12/22/03 at 43.

the insurance. GMP also expected that, over time, increases in the reserve would allow GMP to reduce its other outage insurance costs.³

The addition of the overearnings to the VY Outage Reserves will provide several benefits to GMP's customers, according to the Company. It will allow GMP to cancel its existing outage insurance and avoid the purchase of such insurance in the future. The reduced insurance costs will flow directly to ratepayers through GMP's alternative regulation plan's power adjustor (as Schedule A costs). In addition, the VY Outage Reserve is included in GMP's ratebase, and adding to the reserve reduces the Company's cost-of-service; savings from the resulting lower cost-of-service will be passed on to ratepayers in the next base rate adjustment under the Alternative Regulation Plan (scheduled to be filed November 1, 2007).

GMP does not propose to keep all of the excess earnings in the VY Outage Reserve. Instead, GMP will refund to IBM its proportionate share of both the overearnings and the existing funds in the outage reserve. This will produce a credit of approximately \$935,694 (plus return) for IBM, which is roughly 15.7 percent of the total amount in the VY Outage Reserve after adding the overearnings. The bulk of these funds will be refunded in the first billing cycle; the remaining \$50,000 will be returned on December 31, 2007.

In exchange for the refund, IBM will not benefit from the VY Outage Reserve in the future. Thus, if an outage at Vermont Yankee leads to the use of a portion of the Reserve, approximately 15.7 percent of the money that would be used is instead charged directly to IBM. IBM has indicated that it is willing to take this risk.

A third component of GMP's proposal is to modify the VY Outage Reserve. This includes limiting the use of the reserve to outages that result in more than \$300,000 in additional costs per quarter and allowing the reserve to be used in the event of power reductions leading to incremental replacement power costs as well as outages.

Finally, GMP proposes to create mechanisms to assure that the future rates for both the Commercial and Industrial ("C & I") Transmission class and other rate classes reflect the Company's proposals. This means that, in the future, the revenue requirement as applied to the C&I Transmission class will not include the VY Outage Reserve in rate base. In addition, the

3. See generally, Order of 12/22/06 at 18–19.

rates must ensure that the C&I Transmission class is charged its share of replacement power costs if an outage leads to use of the VY Outage Reserve.

To effectuate these proposals, GMP asks us to grant the following approvals:

1. Under Docket 6867, approve the alternative use of overearnings that the Company proposes here.
2. Pursuant to 30 V.S.A. § 221, issue an accounting order that allows the Company to book as a regulatory liability the excess earnings, except those returned to IBM. In addition, the order would allow a refund to IBM of its share of the excess earnings and the existing VY Outage Reserve. Finally, the order would assure that future rates fully and accurately reflect the Company's proposal.
3. Approve the proposed modification to the VY Outage Reserve.
4. Approve a modification to the Alternative Regulation Plan, including the Alternative Regulation Plan Rider incorporated into GMP's tariff, to be consistent with GMP's plan.

IV. DISCUSSION

We find GMP's proposal to be reasonable and approve it. We expect that the plan to use the excess earnings for the VY Outage Reserve will provide benefits to ratepayers. On a short-term basis, customers will receive a direct annual rate reduction of \$810,000 through cancellation of the existing insurance policies. In addition, the inclusion of the Reserve in rate base will provide ratepayers with a return for any money that has not been used to directly offset incremental replacement power costs.

We also accept GMP's proposal to refund money directly to IBM, in exchange for that Company's exclusion from the present and future benefits of the VY Outage Reserve. IBM has knowingly taken this risk. Our only concern is whether the use of the VY Outage Reserve in conjunction with the Alternative Regulation Plan has the effect of using GMP to bear some of the risk that should be passed on to IBM. We will continue to monitor the use of the VY Outage Reserve and the Plan to ensure that this does not occur.

Finally, we find the proposed modifications to the VY Outage Reserve itself to be reasonable.

V. ORDER

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED by the Public Service Board of the State of Vermont that:

1. The request of Green Mountain Power Corporation ("GMP") to add the non-C&I Transmission rate class portion of certain 2005 earnings and 2006 earnings in excess of the earnings cap established in the December 22, 2003, Order in Docket 6867 to the reserve for Vermont Yankee unscheduled outage replacement power costs that GMP included in its Docket 7175/7176 cost-of-service ("VY Outage Reserve") is approved.

2. The accounting order proposed by GMP, (1) establishing a regulatory liability for the non-C&I Transmission rate class portion of the 2005 and 2006 earnings, (2) providing for refund to the C&I Transmission rate class (whose sole member is IBM), through a bill credit, of its portion of the 2005 and 2006 earnings and the VY Outage Reserve, and (3) providing that future rates for non-C&I Transmission rate class customers will reflect a rate base credit for the VY Outage Reserve and a reduction in power costs to the extent the VY Outage Reserve is used, is approved. GMP shall monitor whether the use of the VY Outage Reserve in conjunction with the Alternative Regulation Plan could have the effect of causing GMP to bear some of the risk that should be passed on to IBM. Should such a circumstance occur, GMP shall include in its quarterly power adjuster report the possible effect that shifting this risk could have on ratepayers.

3. GMP's request to modify the VY Outage Reserve (1) to maintain it only for non-C&I Transmission Class customers, (2) to limit its use to funding replacement power costs exceeding \$300,000 per quarter and (3) to permit its use for output reductions as well as outages, is approved.

4. GMP's request to modify its Alternative Regulation Plan by permitting the calculation of the annual base rate adjustment and Power Adjustor to reflect different costs for the C&I Transmission rate class and non-C&I Transmission rate class customers in the manner set forth in this Order, is approved.

5. The revision to GMP's Alternative Regulation Rider to its tariff is approved.

Dated at Montpelier, Vermont, this 3rd day of August, 2007.

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| <u>s/James Volz</u> |) | |
| |) | PUBLIC SERVICE |
| |) | |
| <u>s/David C. Coen</u> |) | BOARD |
| |) | |
| |) | OF VERMONT |
| <u>s/John D. Burke</u> |) | |

OFFICE OF THE CLERK

FILED: August 3, 2007

ATTEST: s/Susan M. Hudson

Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.